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FM AMEMBASSY PRETORIA
TO RUEHC/SECSTATE WASHDC 4638
INFO RUCPDC/DEPT OF COMMERCE WASHDC
RHEBAAA/DEPT OF ENERGY WASHINGTON DC
RUCNSAD/SOUTHERN AF DEVELOPMENT COMMUNITY COLLECTIVE
RUEHBJ/AMEMBASSY BEIJING 0806
RUEHRL/AMEMBASSY BERLIN 0622
RUEHBY/AMEMBASSY CANBERRA 0678
RUEHLO/AMEMBASSY LONDON 1525
RUEHMO/AMEMBASSY MOSCOW 0808
RUEHNE/AMEMBASSY NEW DELHI 0489
RUEHOT/AMEMBASSY OTTAWA 0637
RUEHFR/AMEMBASSY PARIS 1362

UNCLAS PRETORIA 001186

SIPDIS
SENSITIVE

STATE PLEASE PASS USAID
STATE PLEASE PASS USGS
DEPT FOR AF/S, ISN, EEB/ESC AND CBA
DOE FOR T.SPRL, G.PERSON, A.BIENAWSKI, M.SCOTT, L.PARKER

E.O. 12958: N/A

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SUBJECT: ELECTRICITY CRISIS STALLS COEGA ALUMINUM SMELTER

11. (SBU) SUMMARY: The long-time government-championed aluminum smelter at Coega in the Eastern Cape is the highest profile casualty of South Africa's power crisis. The SAG is disappointed and still in denial over the postponement - and potential permanent loss - of its biggest greenfield project in the queue. The power crisis is a critical issue for potential foreign investors. End Summary.

12. (U) The power crisis claimed a high-profile industrial casualty with Rio Tinto on May 29 postponing its \$3 billion Coega aluminum smelter until 2012, when it is hoped South Africa would have sorted out its electricity problems, according to local press coverage. Rio Tinto CEO Dick Evan said in London the project had been suspended for three or four years and it would redeploy its team of approximately 200 engineers to other international projects. This raises doubts as to whether the power-intensive project will ever get off the ground. The project was proclaimed two years ago by the government as its largest greenfield investment and the long-sought anchor for the Coega Industrial Development Zone.

13. (U) The delay comes despite recent assurances by the Coega Development Corporation and the government that the viability of the smelter was proven and that the current electricity crisis would not affect its implementation. Rio Tinto SA spokesman Robert Valdmanis said the pre-construction phase had been completed, but construction could not begin until guarantees about electricity requirements were in place.

On Again - Off Again

14. (U) The latest delay follows an announcement earlier this year by Rio Tinto CE Tom Albanese that the company would not go ahead until new power plants had been built and the electricity supply guaranteed - beyond the existing agreement with state power company Eskom. The postponement comes amid mounting calls for the scrapping of energy-intensive projects as the country battles a crippling power crisis. Critics have questioned the project with respect to the need to import the bauxite and the small number of jobs it would create.

15. (SBU) Department of Foreign Affairs Director: USA Fadl Nacerodien asserted the deal was still very much alive to the Embassy team on the same day (but in advance of the announcement

reported in the press the following day) at bilateral meetings. Department of Minerals and Energy Deputy Director General Nhlanhla Gumede told Energy Officer on June 3 the deal was still in play, citing the perseverance of the Coega Development Corporation. Department of Trade and Industry Manager: Americas Desk Cobs Pillay admitted to Energy Officer that the deal was stalled, but he was still bullish on the long-term prospects for the smelter and the Coega Industrial Development Zone. He said Middle Eastern investors showed a strong interest in the zone and they might even consider taking over the smelter project.

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Comment - Successive Evaluation - Government Frustration
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16. (SBU) The SAG has been promoting this flagship investment since 2001 to seed additional investment at the Coega Industrial Development Zone and deep-water port near Port Elizabeth in the impoverished Eastern Cape. The anchor tenant aluminum smelter was first championed by Pechiney of France, but the project was acquired first by Alcan of Canada, then by Rio Tinto of the UK. Rio Tinto is now subject to a hostile takeover bid from BHP Billiton of Australia, so it is possible that yet another skeptical board may have to vet the long-delayed deal. This may be the ultimate delay - to never. It is difficult to quantify the magnitude of other investment lost to the power crisis, but it is clearly topic number one for potential FDI investors in energy-intensive industries.

BOST